

BEFORE THE KANSAS CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Annual Filing of)
Southern Pioneer Electric Company for)
Approval to Make Certain Changes to Its)
Charges for Electric Services Pursuant to)
the Consolidated Formula Based)
Ratemaking Plan Approved in Docket No.) Docket No. 21-SPEE-_____-RTS
19-SPEE-240-MIS and Implementation of)
Rate Adjustment Pursuant to Docket No.)
20-SPEE-169-RTS.)

PREFILED DIRECT TESTIMONY OF

RICHARD J. MACKE
VICE PRESIDENT, ECONOMICS, RATES, AND BUSINESS
PLANNING
POWER SYSTEM ENGINEERING, INC.

ON BEHALF OF

SOUTHERN PIONEER ELECTRIC COMPANY

May 2, 2022

TABLE OF CONTENTS

PART I - QUALIFICATIONS	1
PART II - SUMMARY OF DIRECT TESTIMONY	4
PART III –FBR CALCULATIONS.....	5
1. SUMMARY OF THE FBR PLAN RESULTS.....	5
2. ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS for the FBR PLAN	8
3. CALCULATED DSC AND RATE REVENUE ADJUSTMENT	14
4. IMPLEMENTATION OF THE FBR PLAN REVENUE ADJUSTMENT TO RATE SCHEDULES	15
PART IV - CONCLUSION.....	19

TABLES

Table 1 - Southern Pioneer Electric Company Allocation of 2021 Allocation of FBR Rate Adjustment to Retail Rate Schedules	8
Table 2 - Southern Pioneer Electric Company Allocation of 2021 Allocation of 34.5kV Adjustment to Retail Rate Schedules	17
Table 3 - Southern Pioneer Electric Company Allocation of 2021 Allocation of Distribution Adjustment to Retail Rate Schedules	18
Table 4 - Southern Pioneer Electric Company Allocation of 2021 Allocation of FBR Rate Adjustment to Retail Rate Schedules	20

PART I - QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Richard J. Macke. My business address is 10710 Town Square Drive NE, Suite 201, Minneapolis, Minnesota 55449.

Q. What is your profession?

A. I am a Vice President and lead the Economics, Rates, and Business Planning Department at Power System Engineering, Inc. ("PSE"), which is headquartered at 1532 W. Broadway, Madison, Wisconsin 53713.

Q. Please describe the business activities of PSE.

A. PSE is a consulting firm serving electric utilities across the country, but primarily in the Midwest. Our headquarters is in Madison, Wisconsin with regional offices in Topeka, Kansas; Minneapolis, Minnesota; Marietta, Ohio; Cincinnati, Ohio, and Sioux Falls, South Dakota. PSE is involved in: power supply, transmission and distribution system planning; distribution, substation and transmission design; construction contracting and supervision; retail and wholesale rate and cost of service ("COS") studies; economic feasibility studies; merger and acquisition feasibility analysis; load forecasting; financial and operating consultation; telecommunication and network design, mapping/GIS; and system automation including Supervisory Control and Data Acquisition ("SCADA"), Demand Side Management ("DSM"), metering, and outage management systems.

Q. Please describe your responsibilities with PSE.

A. I lead and direct staff in Indiana, Minnesota, and Wisconsin who provide economic, financial, and rate-related consulting services to investor-owned, cooperative and municipal utilities as well as regulators and industry associations. These services include:

- Cost of Service Studies.
- Capital Credit Allocations.
- Demand Response.
- Distributed Generation Rates.
- Energy Efficiency.
- Financial Forecasting.
- Individual Customer Profitability.
- Large Power Contract Rates/Proposals.
- Line Extension Policies/Charges.
- Load Management Analysis.
- Load Forecasting.
- Market and Load Research.
- Merger Analysis.
- Pole Attachment Charges.
- Policy and Board Audits.
- Power Cost Adjustments.
- Rate Consolidation.
- Retail Rate Design and Analysis.
- Special Fees and Charges.
- Statistical Performance Measurement (Benchmarking).
- Value of Service.

Q. What is your educational background?

A. I graduated from Bethel University in St. Paul, Minnesota in 1996 with a Bachelor of Arts degree in Business, which included an emphasis in Finance and Marketing. In 2007, I received my Masters of Business Administration degree, with an emphasis in Finance and Strategic Management, from the University of Minnesota in Minneapolis, Minnesota. I have also attended numerous industry seminars/courses on cost of service, pricing, valuation, distributed generation, etc.

Q. What is your professional background?

A. From 1996 to 1998, I was employed by PSE in its Minneapolis, Minnesota office as a Financial Analyst in the Utility Planning and Rates Department. My work responsibilities primarily were focused on retail rate studies, including revenue requirements and bundled/unbundled COS studies. I also provided analyses used to support testimony, mergers and acquisitions analysis, and financial forecasting.

From 1998 to 1999, I was employed as a Senior Analyst by Energy & Resource Consulting Group, LLC in Denver, Colorado, a financial, engineering, and management consulting firm. I performed consulting services related to electric, gas, and water rate studies. As part of the Legend Consulting Advisor Team contracted to the City Council of the City of New Orleans,

1 Louisiana, I assisted in various electric and gas utility matters. I also provided general
2 financial, management, and public policy support to clients.

3 I rejoined PSE in 1999; and from 1999 to 2002, I held the position of Rate and Financial
4 Analyst in the Rates and Financial Planning Department. From 2002 to March 2008, I held
5 the position of Senior Rate and Financial Analyst in the Utility Planning and Rate Division.
6 My responsibilities have included performing complex financial analyses, such as rate studies
7 consisting of determination of revenue requirements, bundled and unbundled COS analysis,
8 and rate design. Other responsibilities included performing analysis of special rates and
9 programs, key account analyses, financial forecasting, merger and acquisition analysis,
10 activity-based costing, policy development and evaluation, and other financial analyses for
11 various PSE clients. Additional responsibilities included strategic planning, litigation support,
12 regulatory compliance, capital expenditure and operational assessments, and advisement.
13 From April 2008 to June 2010, I held the position of Leader, Rates and Financial Planning. In
14 July 2010, my title changed to Vice President, Rates and Financial Planning. Since June 2011,
15 I have held the position of Vice President, Economics, Rates, and Business Planning. In this
16 capacity, I continue to provide, amongst other things: 1) rate, financial, and economic
17 consulting services to clients, 2) management and leadership to the Economics, Rates, and
18 Business Planning Department, and 3) management and leadership at the corporate level to
19 PSE through participation on the Executive Committee and Board of Directors.

20 **Q. Have you previously presented testimony before the Kansas Corporation Commission**
21 **(“KCC” or “Commission”)?**

22 A. Yes. I submitted testimony on behalf of: Pioneer Electric Cooperative, Inc. in Docket No. 09-
23 PNRE-563-RTS; Wheatland Electric Cooperative, Inc. in Docket No. 09-WHLE-681-RTS;
24 Mid-Kansas Electric Company, LLC (“Mid-Kansas”) in Docket Nos. 09-MKEE-969-RTS, 11-
25 MKEE-439-RTS, 12-MKEE-491-RTS, 12-MKEE-380-RTS, 13-MKEE-452-MIS, and 16-

1 MKEE-023-TAR; Southern Pioneer Electric Company (“Southern Pioneer”) in Docket Nos.
2 14-SPEE-507-RTS, 15-SPEE-161-RTS, 15-SPEE-519-RTS, 16-SPEE-497-RTS, 16-SPEE-
3 501-TAR, 17-SPEE-476-TAR, 18-SPEE-477-RTS, 18-WSEE-328-RTS, 19-SPEE-240-MIS,
4 20-SPEE-169-RTS, 21-SPEE-411-RTS; Prairie Land Electric Cooperative, Inc. in Docket No.
5 16-PLCE-490-TAR and 20-PLCE-406-TAR; Victory Electric Cooperative Association, Inc.
6 in Docket No. 16-VICE-494-TAR and 21-VICE-412-TAR; and Western Cooperative Electric
7 Association in Docket No. 16-WSTE-496-TAR and 21-WSTE-404-TAR.

8 **Q. Do you have any other relevant experience?**

9 A. Yes. I have directed over 200 rate and COS studies and numerous other rate and financial
10 related projects. Many times these projects were conducted for self-regulated electric utilities.
11 I have also performed such analysis which was filed in regulated rate cases on behalf of
12 cooperatives in Iowa, Kansas, Kentucky, Michigan, Minnesota, New Hampshire, and Texas.

13 I have also conducted seminars and made presentations to utilities, consumers, and industry
14 groups on a variety of topics including: COS, rate design, rate change communications, line
15 extension policies, mergers and acquisitions, DSM pilot programs, conservation and energy
16 efficiency, distributed generation rates, and industry trends.

17
18 **PART II - SUMMARY OF DIRECT TESTIMONY**

19 **Q. What is the purpose of your testimony in this proceeding?**

20 A. The purpose of my testimony is to support the Application of Southern Pioneer for its 2022
21 annual update under its Consolidated FBR Plan approved by Order dated August 11, 2020 in
22 Docket No. 19-SPEE-240-MIS (“19-240 Order” and “19-240 Docket”). My testimony
23 provides the FBR Plan calculations which establish the annual adjustment to Southern
24 Pioneer’s retail rates and its wholesale Local Access Delivery Service (“LADS”) rates for
25 service over Southern Pioneer’s 34.5kV sub-transmission system. My testimony also provides

rate design to implement the established revenue adjustments in alignment with the provisions of the Order in the 19-240 Docket and protocols included therein.

Q. Are there particular Exhibits to Southern Pioneer’s Application that you will be describing and explaining?

A. Yes. My testimony concerns, and is supported by, the following Exhibits to the Application filed by Southern in this Docket:

Exhibit 3 - FBR Calculation for Test Year
Exhibit 11 - Proposed Tariffs

Q. Have the exhibits been prepared by you or under your supervision?

A. Yes.

PART III –FBR CALCULATIONS

1. SUMMARY OF THE FBR PLAN RESULTS

Q. Please briefly recap the FBR Plan.

A. The FBR Plan, as approved by the Commission in the 19-240 Docket, provides a method for periodic adjustments to retail and LADS rates, as might be necessary, to achieve a debt service coverage (“DSC”) ratio of 1.60x. The FBR Plan includes a calculation of any revenue adjustment (a.k.a. net operating income adjustment) necessary for providing service over Southern Pioneer’s 34.5kV sub-transmission system and its distribution system. Prior to the 19-240 Docket, Southern Pioneer had two separate FBRs, one for the 34.5kV System and one for the Distribution System. The 19-240 Docket combined these into one FBR Plan which continues to separately establish any revenue adjustments for each system. If the result of the calculation for either system is a DSC that is less than 1.60, then a rate increase would be implemented, so long as such an increase does not cause the equity ratio to exceed

1 15 percent.¹ If the DSC is above 1.60, then a rate decrease would be implemented. If the
2 resultant DSC equals 1.60, there would be no change in rates. The details of the calculations
3 for the DSC and any corresponding rate adjustments are outlined in Section F of the FBR
4 Plan Protocols (Protocols), which are attached to Southern Pioneer's Application as
5 **Attachment A.**

6 **Q. What data formed the basis for the 2022 FBR Plan calculation?**

7 A. Consistent with the Protocols, the calculation was based upon a 2021 Historical Test Year. As
8 such, it utilizes historical figures from Southern Pioneer's December 2021 Financial and
9 Statistical Report ("Form 7"), Trial Balance, and Payroll Journal.²

10 **Q. Please summarize the results of the 2022 FBR Plan calculation for the 34.5kV System and**
11 **Distribution System.**

12 A. The FBR Plan calculation for the Test Year is contained in Exhibit 3. Completing the FBR
13 Plan template calculation consistent with the Protocols approved by the Commission in the 19-
14 240 Docket results in the need for the following 34.5kv System and Distribution net operating
15 income adjustments:

16 **34.5kV System:** The calculation shows that a DSC of 1.91 was achieved for the
17 Test Year. To bring the revenue in line with the Commission authorized 1.60 DSC,
18 a decrease of \$714,026 is required, representing an average 15.2% decrease.

19
20 **Distribution System:** The calculation shows that a DSC of 1.73 was achieved for
21 the Test Year. To bring the revenue in line with the Commission authorized 1.60

22
23 ¹ Unless such an increase was necessary for Southern Pioneer to avoid violating its debt covenants with its
24 lender, FBR Plan Protocols, Page 4, Section E.

25 ² Included in Southern Pioneer's Application as part of Exhibits 2 (Form 7), 4 (Trial Balance), and 5 (Payroll
Journal). Please note Company has already adjusted its 2021 financials to exclude costs related to Storm Uri
as directed by the Commission's Emergency Order in Docket No. 21-GIMX-303-MIS and further explained
in Mr. Scott's testimony filed in the instant Docket.

DSC, a revenue decrease of \$1,191,366 is required, representing an average 1.7% decrease.

Note both amounts already reflect the True-Up also applicable in this year's filing.

Q. Please summarize how the adjustment for 34.5kV service will be implemented.

A. In accordance with Section F.3.c of the Protocols, the change for the 34.5kV System is converted to a \$/kW adjustment by dividing it by the 34.5kV Total Billing Demand (retail and wholesale). The resultant per unit adjustment, multiplied by the respective retail and wholesale 34.5kV billing demand, yields the corresponding retail and wholesale shares of the total 34.5kV adjustment. For the retail share of the 34.5kV adjustment, the dollar amount is included with the Distribution System adjustment and allocated to the rate classes as described below, which is on the basis of Test Year base revenue (i.e., gross revenue less purchased power expense).

Q. Please summarize how the revenue change for distribution service will be implemented.

A. In accordance with Section F.4.a. of the Protocols, the increase is to be spread amongst the retail rate schedules of Southern Pioneer based upon the Test Year base revenue (i.e., gross revenue less purchased power expense).

Q. Please provide a summary of the retail adjustment by rate schedule for both the 34.5kV and Distribution system adjustment.

A. Table 1 summarizes the revenue adjustment for both the 34.5kV and distribution system to each of the retail rate schedules.

Table 1

SOUTHERN PIONEER ELECTRIC COMPANY Allocation of FBR Rate Adjustment to Retail Rate Schedules						
Line No.	Rate Schedule	Rate Schedule Revenue	34.5kV System Adjustment	Distribution System Adjustment	Total Adjustment	Change as Percent
		(\$)	(\$)	(\$)	(\$)	(%)
1	Residential Service (21-RS)					
2	General Use	17,434,039	(173,846)	(434,684)	(608,529)	-3.5%
3	Space Heating	802,699	(8,421)	(21,055)	(29,476)	-3.7%
4	General Service Small (21-GSS)	2,191,219	(25,325)	(63,323)	(88,649)	-4.0%
5	General Service Large (21-GSL)	17,615,271	(168,235)	(420,655)	(588,890)	-3.3%
6	General Service Space Heating	256,111	(1,867)	(4,668)	(6,535)	-2.6%
7	Industrial Service (21-IS)	5,710,635	(48,737)	(121,863)	(170,601)	-3.0%
8	Industrial Service-Primary Discount	0	0	0	-	N.A.
9	Real -Time Pricing (13-RTP)	7,413	0	0	-	N.A.
10	Transmission Level Service (21-STR)	25,210,773	(4,253)	(49,025)	(53,278)	-0.2%
11	Municipal Power Service (21-M-I)	39,443	(478)	(1,195)	(1,672)	-4.2%
12	Water Pumping Service (21-WP)	784,063	(7,910)	(19,778)	(27,687)	-3.5%
13	Irrigation Service (21-IP-I)	367,420	(3,680)	(9,201)	(12,881)	-3.5%
14	Temporary Service (21-CS)	723,301	(11,156)	(27,894)	(39,050)	-5.4%
15	Lighting	444,228	(7,209)	(18,026)	(25,235)	-5.7%
16	Total Retail Rates	71,586,615	(461,117)	(1,191,366)	(1,652,483)	-2.3%

2. ADJUSTMENTS TO THE ACTUAL TEST YEAR RESULTS for the FBR PLAN

Q. You stated that 2021 actual results formed the basis for the FBR Plan calculation. The Protocols specify a limited number of adjustments to be made. What adjustments did you make to Southern Pioneer's actual 2021 financial results in completing the FBR Plan calculation?

A. Consistent with Section F.1 of the FBR Plan Protocols, adjustments were made to the following categories of revenues and/or costs:

- Operating Revenue and Patronage Capital
- Tax Expense - Other
- Interest on Long-Term Debt
- Interest Expense - Other

- Debt Service Payments

Further, per Section F.1.g of the Protocols and in recognition of the Commission policy adopted per K.S.A. 66-101f (a), the following expense categories were adjusted to remove certain amounts associated with the dues, donations, charitable contributions, promotional advertising, penalties and fines, and entertainment expenses incurred during the Test Year:³

- Distribution Expense - Operation
- Customer Accounts Expense
- Customer Service and Informational Expense
- Sales Expense
- Administrative and General (“A&G”) Expense
- Other Deductions

The position and reasoning in support of inclusion or exclusion of these items is provided in the direct testimony of Mr. Chantry Scott, filed on behalf of Southern Pioneer in this Docket.

Q. Please describe the adjustments made to the Test Year Operating Revenue and Patronage Capital.

A. Annualization rate adjustments were made to both Distribution and 34.5kV system revenues to annualize rate changes approved in last year’s FBR Plan in Docket No. 21-SPEE-411-RTS, resulting in \$1,205,535 annualization adjustment for the Distribution System and (\$359,550) adjustment to the 34.5kV System.

B. Additionally, an adjustment was made to include the current level of the Property Tax Surcharge (“PTS”) being charged to customers. The PTS was approved in January of 2022 (Docket No. 22-SPEE-263-TAR). It is based on recovering 2021 Property Tax expense and

³ K.S.A. 66-101f (a) allows adoption of a policy of “ disallowing a percentage, not to exceed 50%, of utility dues, donations and contributions to charitable, civic and social organizations and entities, in addition to disallowing specific dues, donations and contributions which are found unreasonable or inappropriate.”

1 thus it is appropriate to include the additional revenue from the 2022 PTS versus the PTS that
2 was in place during 2021.⁴ This is a similar approach to how the PTS has been handed in the
3 Annual Updates under the prior 34.5kV FBR and DSC-FBR. In the prior 34.5kV FBR after
4 the rate was determined based upon the Test Year revenue requirement, the then current PTS
5 was subtracted to yield the rate for the LADS schedule. The amount of the adjustment in the
6 instant filing is a reduction of \$428,975 (\$383,226 for distribution portion and \$45,749 for
7 34.5kV portion) and represents the difference between the current and prior PTS applied to
8 2021 billing determinants. It should be noted that while the current PTS will not be applied to
9 2021 billing determinants, rather 2022, the annual PTS filing includes a true-up which should
10 account for this difference between the 2021 and 2022 volumes. Workpaper WP10, provided
11 to the parties, details this adjustment, which is then summarized in Exhibit 3, Page 4, Lines 9
12 and 20 (though note line 20 also adds in the 34.5kV system annualization adjustment detailed
13 above).

14 The Combined System adjustment from the items described above was \$417,010 as reflected
15 in Exhibit 3, Page 1, Line 2 Column (d) and Page 4, Line 22.

16 **Q. Please describe the adjustments made to the Test Year Tax Expense - Other.**

17 A. Section F.1.d of the Protocols calls for an adjustment to reflect only cash tax expense. In 2021,
18 Southern Pioneer's cash tax transactions were \$0 as evidenced in Workpaper WP-2 attached
19 to Exhibit 3. Therefore, a downward adjustment of \$2,581,972 was applied to remove all non-
20 cash tax expense from the Test Year. The adjustment is detailed in Exhibit 3, Page 5, Lines
21 37-39.

22 **Q. Please describe the adjustments made to the Test Year Interest on Long-Term Debt.**

24 ⁴ Note there were 2 retail PTS rates in effect during 2021 as authorized in Docket Nos. 21-SPEE-232-TAR
25 and 21-SPEE-411-RTS (latter reduced PTS rate approved earlier due to re-basing approved in SPECo's last
full rate case), see Work paper WP10.

1 A. The historical amount of Interest on Long-Term Debt for the 2021 Test Year was \$5,662,624
2 as reported on Southern Pioneer's Form 7. The Protocols, in Section F.1.e., specify that the
3 actual amount be adjusted to reflect Southern Pioneer's budgeted amount for 2022. Southern
4 Pioneer's budgeted long-term interest expense is \$5,494,914, and so a reduction in the amount
5 of \$167,710 was included.⁵ The details of this adjustment are shown in Exhibit 3, Page 5,
6 Lines 43-45.

7 **Q. Please describe the adjustments made to the Test Year Interest Expense - Other.**

8 A. The historical amount of Other Interest Expense for the 2021 Test Year was \$18,791 as
9 reported on Southern Pioneer's Form 7. Consistent with Section F.1.f of the Protocols, the
10 amount has been adjusted to reflect Southern Pioneer's 2021 Budget for short-term interest
11 expense of \$86,554.⁶ To accomplish this, an adjustment of \$67,763 was included. The details
12 of the adjustment can be found in Exhibit 3, Page 5, Lines 49-51.

13 **Q. Please describe the adjustments made to the Test Year Debt Service Payments.**

14 A. Debt Service Payments are comprised of interest and principal payments on debt outstanding.
15 Since I previously discussed the adjustments to interest expense, I will here focus on the
16 adjustment to principal payments. The historical amount of Principal Payments for the 2021
17 Test Year was \$3,114,380 (as reported on Southern Pioneer's Form 7). The Protocols, in
18 Section F.1.h, require that the Test Year be adjusted to reflect Southern Pioneer's budgeted
19 amount for 2022. Southern Pioneer's budget for 2022 principal payments is \$3,270,147, so an
20
21
22

23
24 ⁵ Excludes Storm Uri portion.

25 ⁶ *Ibid.*

adjustment in the amount of \$155,767 was included.⁷ This adjustment is detailed in Exhibit 3, Page 5, Lines 55-57.

Q. Please describe the adjustment made to Non-Operating Margins – Other.

A. An adjustment was made to reverse inclusion of the Payroll Protection Plan (“PPP”) loan forgiveness in the amount of \$940,000 already recognized by Southern Pioneer in the last year’s FBR Plan update. Including \$940,000 last year in anticipation of this forgiveness already benefitted the wholesale and retail customers by reducing revenue needed in last year’s FBR Plan filing.⁸

Q. Please describe the adjustments made to the Test Year Operating Expenses in conjunction with Section F.1.g of the Protocols and the Commission’s policy per K.S.A. 66-101f (a).

A. The historical amounts of the following operating expenses were adjusted as shown:

- Distribution - Operation Expense was reduced by \$678.
- Customer Service and Informational Expense was reduced by \$29,637.
- Sales Expense was reduced by \$13,982.
- A&G Expense was reduced by \$50,006.
- Other Deductions Expense was reduced by \$21,513.

Overall, \$115,816 of expenses were removed through these adjustments. The details are shown in Exhibit 3, Page 4, Lines 27-33.

Q. Please describe the allocations made to classify revenue and expenses between the 34.5kV System and the Distribution System.

⁷ *Ibid.*

⁸ See also testimony of Southern Pioneer witness C. Scott.

1 A. Section F.2 of the Protocols specifies the relevant explanation of the allocations.

2 Per Section F.2.a of the Protocols, 34.5kV system-related revenues are to be direct-
3 assigned using 34.5kV system rates effective during the Test Year. As such, revenue in the
4 amount of \$4,683,500 was determined to be directly assignable to the 34.5kV System. This
5 includes \$3,783,675 in base rate revenues obtained by multiplying the total 34.5kV system
6 billing demand by the LADS rate effective during the Test Year. In addition, it includes
7 \$899,825 in Property Tax Surcharge (“PTS”) rider revenues to reflect the portion attributable
8 to the 34.5kV System. The latter amount was determined by multiplying the total 34.5kV
9 system billing demand by the PTS rate currently in effect.⁹ After the direct-assignment of
10 34.5kV System revenues, the resultant Distribution System revenues in the FBR Plan is
11 \$69,219,072, as evident on Page 1, Line 2, Column “Distribution System” of Exhibit 3.

12 For Depreciation and Amortization Expense, as per Section F.2.c of the Protocols,
13 \$984,668 of the historical Form 7 amount of \$3,946,506 was allocated to the 34.5kV System
14 with the remainder of \$2,961,838 allocated to Distribution System.

15 For A&G, Property and Gross Receipts Tax, Interest on Long-Term Debt, Other Interest,
16 Other Capital Credits, Principal Payments, and other applicable items per Sections F.2.b, F.2.d,
17 F.2.f, F.2.g, F.2.h, F.2.i and F.2.j of the Protocols, the following two allocation ratios are
18 calculated: Transmission Labor Ratio (“LAB”) and Net Transmission Plant Ratio (“NP”).
19 Applying the allocation factor to the Adjusted Historical Test Year amounts establishes the
20 34.5kV System amount with the remainder assigned to the Distribution System. These
21 allocation factors are listed on Exhibit 3, Pages 1-2, “34.5kV Allocation Factors” and the
22 calculations is detailed in Exhibit 3, Page 6.

23
24
25 ⁹ Per 22-SPEE-263-TAR.

Tax Expense - Other (cash portion) was allocated between the 34.5kV and Distribution Systems based on Operating Margins per Section F.2.e of the Protocols.

Non-Operating Margins – Other was allocated based upon payroll using the labor allocator.

3. CALCULATED DSC AND RATE REVENUE ADJUSTMENT

Q. Using the FBR Plan template¹⁰, what is Southern Pioneer’s DSC ratio for the 2021 Test Year for the 34.5kV System and Distribution System after performing the adjustments and allocations detailed above?

A. The FBR Plan template with the adjustments and allocations prescribed by the Protocols produces a DSC ratio of 1.91 for the 34.5kV System and 1.73 for the Distribution System for the Test Year. Below shows the calculations:

34.5kV System: \$3,792,739 Total Debt Service Margins ÷ \$1,989,791 Total Debt Service Payments = 1.91 DSC

Distribution System: \$11,840,480 Total Debt Service Margins ÷ \$6,861,824 Total Debt Service Payments = 1.73 DSC

The 34.5kV resultant ratio is above the 1.6 target DSC. Consistent with the provisions of Section F.3.a. of the Protocols, a decrease is being requested.

The Distribution resultant ratio is above the 1.6 target DSC. Consistent with the provisions of Section F.3.a of the Protocols, a decrease is being requested.

Q. Please describe any additional adjustment to Operating Income.

A. As detailed in Workpaper WP8 attached to Exhibit 3 and included on Page 2 of Exhibit 3, Line 57, comparing 2021 budgeted debt service included in last year’s FBR Plan filing to 2021

¹⁰ As required under the Protocols, Section G.3.

1 actual debt service results in a (\$97,191) True-Up to 34.5kV System and (\$299,329) True-Up
2 to the Distribution system net operating income previously approved.

3 **Q. Please identify and explain how the revenue adjustment was determined within the FBR**
4 **Plan template for the 2021 Test Year.**

5 A. Section F.3.a of the Protocols directs that the revenue adjustment is to be determined by
6 comparing the Test Year DSC to a 1.60 DSC Ratio for each system. This section addresses
7 the scenario when the Test Year DSC is lower than the target DSC, instructing that an increase
8 in rates will be necessary to bring the Test Year DSC up to 1.60. The first step then is to
9 subtract the Test Year DSC from the target DSC, to get the variance between the Test Year
10 and target DSC. Multiplying this variance by the Test Year debt service payments for the
11 34.5kV and Distribution System yields the adjustment required for each. Please see the
12 calculation below:

13 ***34.5kV System:*** $1.60 - 1.91 = -0.31$ multiplied by \$1,989,791 = (\$616,835) plus an
14 annual True-Up of (\$97,191) results in a \$714,026 revenue decrease required.

15 ***Distribution System:*** $1.60 - 1.73 = 0.13$ multiplied by \$6,861,824 = (\$892,037)
16 plus an annual True-Up of (\$299,329) results in \$1,191,366 revenue decrease
17 required.

18 **4. IMPLEMENTATION OF THE FBR PLAN REVENUE ADJUSTMENT TO RATE**
19 **SCHEDULES**

20 **Q. Please describe how the revenue adjustment determined in the FBR Plan for the 34.5kV**
21 **System is implemented.**

1 A. In accordance with Section F.3.c. of the Protocols, the resultant revenue adjustment was
2 divided by the total billing demand for the Test Year to arrive at the \$ per kW adjustment.¹¹
3 The result is an \$0.81 per kWh decrease to the \$4.28 per kW LADS rate currently in effect.
4 Using the Load Ratio Share (“LRS”), around \$252,909, or 35 percent, of the decrease is
5 applicable to Southern Pioneer’s wholesale LADS customers; and the remaining (\$461,117),
6 or about 65 percent, is applicable to Southern Pioneer’s retail customers. For Southern
7 Pioneer’s wholesale LADS customers, the result is a new LADS rate of \$3.47 per kW. In
8 accordance with Section F.4. of the Protocols, the revenue adjustments resulting from the FBR
9 Plan attributable to retail rates are to be spread amongst the retail rate schedules of Southern
10 Pioneer based upon the Test Year base revenue (i.e., gross revenue less purchased power
11 expense). Therefore, consistent with the FBR Plan Protocols, the Net Operating Income
12 Adjustments resulting from the FBR Plan was apportioned accordingly:

- 13 1. First, all power costs recovered in rates were removed from the historical revenues
14 recorded for each schedule to arrive at the base revenues by rate schedule.
- 15 2. Next, the ratio (expressed in percentages) of base revenue by schedule to the total base
16 revenues was determined.
- 17 3. The base revenue ratios were then applied to the sum of 1) the retail share of the 34.5kV
18 System adjustment and, 2) the Distribution System adjustment establish each rate
19 schedule’s apportioned revenue adjustment.¹²

20 Table 2 shows the allocation of the 34.5kV adjustment to the retail rate schedules.

21
22 ¹¹ The billing demand for the Test Year, shown on page 7 of Exhibit 3, is provided by Sunflower Electric
23 Power Corporation, Southern Pioneer’s G&T provider.

24 ¹² As per the Protocols, Section F.4.a., the FBR adjustment for the STR class was determined first and system-
25 wide without the impact of additional debt service for investments in distribution plant in the Budget Year.
This resulting revenue adjustment was then allocated to the STR class based upon its base revenue. This
STR class revenue adjustment was then subtracted from the total to be allocated to the remaining retail rate
classes, as detailed in Exhibit 3, Page 6 and corresponding work papers containing the electronic format of
Exhibit 3.

Table 2

SOUTHERN PIONEER ELECTRIC COMPANY Allocation of 34.5kV Adjustment to Retail Rate Schedules				
Line No.	Rate Schedule	Rate Schedule Revenue	34.5kV System Adjustment	Change as Percent
		(\$)	(\$)	(%)
1	Residential Service (21-RS)			
2	General Use	17,434,039	(173,846)	-1.0%
3	Space Heating	802,699	(8,421)	-1.0%
4	General Service Small (21-GSS)	2,191,219	(25,325)	-1.2%
5	General Service Large (21-GSL)	17,615,271	(168,235)	-1.0%
6	General Service Space Heating	256,111	(1,867)	-0.7%
7	Industrial Service (21-IS)	5,710,635	(48,737)	-0.9%
8	Industrial Service-Primary Discount	-	0	N.A.
9	Real -Time Pricing (13-RTP)	7,413	0	0.0%
10	Transmission Level Service (21-STR)	25,210,773	(4,253)	0.0%
11	Municipal Power Service (21-M-I)	39,443	(478)	-1.2%
12	Water Pumping Service (21-WP)	784,063	(7,910)	-1.0%
13	Irrigation Service (21-IP-I)	367,420	(3,680)	-1.0%
14	Temporary Service (21-CS)	723,301	(11,156)	-1.5%
15	Lighting	444,228	(7,209)	-1.6%
16	Total Retail Rates	71,586,615	(461,117)	-0.6%

Q. Please describe how the revenue adjustment determined in the FBR Plan for the Distribution System is implemented.

A. Whereas the net operating income adjustment for the 34.5kV System must be allocated between wholesale LADS rate and retail rates using the LRS, the revenue adjustment determined by the FBR Plan for the Distribution System is fully assigned to retail rates. As stated in the implementation of the retail share of the 34.5kV System operating income adjustment above, Section F.4.a. of the Protocols prescribes that any revenue adjustment resulting from the FBR Plan is to be allocated to the retail rate classes on the basis of Test Year

base revenues by rate schedule.¹³ Southern Pioneer has therefore apportioned the adjustment to retail rate classes using the Test Year base revenues, as approved in the 20-169 Docket.

Table 3 on the following page summarizes the results of this allocation for the Distribution System adjustment. Exhibit 3, Page 7 and Workpaper WP3 provides further detail.

Table 3

SOUTHERN PIONEER ELECTRIC COMPANY Allocation of Distribution Adjustment to Retail Rate Schedules				
Line No.	Rate Schedule	Rate Schedule Revenue	Distribution System Adjustment	Change as Percent
		(\$)	(\$)	(%)
1	Residential Service (21-RS)			
2	General Use	17,434,039	(434,684)	-2.5%
3	Space Heating	802,699	(21,055)	-2.6%
4	General Service Small (21-GSS)	2,191,219	(63,323)	-2.9%
5	General Service Large (21-GSL)	17,615,271	(420,655)	-2.4%
6	General Service Space Heating	256,111	(4,668)	-1.8%
7	Industrial Service (21-IS)	5,710,635	(121,863)	-2.1%
8	Industrial Service-Primary Discount	-	0	N.A.
9	Real -Time Pricing (13-RTP)	7,413	0	0.0%
10	Transmission Level Service (21-STR)	25,210,773	(49,025)	-0.2%
11	Municipal Power Service (21-M-I)	39,443	(1,195)	-3.0%
12	Water Pumping Service (21-WP)	784,063	(19,778)	-2.5%
13	Irrigation Service (21-IP-I)	367,420	(9,201)	-2.5%
14	Temporary Service (21-CS)	723,301	(27,894)	-3.9%
15	Lighting	444,228	(18,026)	-4.1%
16	Total Retail Rates	71,586,615	(1,191,366)	-1.7%

Q. How are the resulting revenue increases by rate schedule implemented in the rate design?

A. The Protocols, in F.4.b. specify that the resultant revenue adjustment by rate schedule is to be divided by the Test Year energy sales to determine a per kWh rate adjustment that is then added

¹³ Unless Southern Pioneer files a COS study supporting something different and the Commission approves such a request for variance per Plan Protocols, at F.4.a.

1 to the energy charges for each rate schedule. The result of this calculation is shown in Column
2 (e) of Exhibit 3, Page 7.

3 The one exception required is for lighting. Since the lighting rate schedules do not have
4 an energy charge, the monthly charge must be adjusted. The lighting rate schedules do have
5 an estimated energy use for the various sizes/types of lights, and so the energy adjustment can
6 still be applied to affect the monthly charge in a way that is proportionate to usage. This
7 approach then provides consistency between all the retail rates being adjusted.

8
9 **Q. Have the proposed tariffs as required in the Protocols in Section G.13 been provided?**

10 A. Yes, they are included as Exhibit 13 of the Application in the instant Docket.

11
12 **PART IV - CONCLUSION**

13 **Q. Please recap the results of the FBR Plan Annual Update for Southern Pioneer.**

14 A. Southern Pioneer's FBR Plan, updated for 2021 Test Year, results in a DSC ratio of 1.73 for
15 the Distribution System, requiring a \$1,191,366 revenue decrease applicable to Southern
16 Pioneer's retail customers. The FBR Plan results in a DSC ratio of 1.91 for the 34.5kV system,
17 requiring a \$714,026 decrease. On a LRS basis, the retail share of this adjustment is 65% and
18 the wholesale share is 35%. The aggregate retail decrease when combining the Distribution
19 and 34.5kV System results is (\$1,652,483) or -2.3% which is allocated to the rate schedules
20 and implemented as a per kWh adjustment, consistent with the FBR Protocols. The wholesale
21 LADS rate will decrease from \$4.28/kW to \$3.47/kW. The allocation of the net change to retail
22 rate schedules is summarized in Table 4 below.

Table 4

SOUTHERN PIONEER ELECTRIC COMPANY Allocation of FBR Rate Adjustment to Retail Rate Schedules						
Line No.	Rate Schedule	Rate Schedule Revenue	34.5kV System Adjustment	Distribution System Adjustment	Total Adjustment	Change as Percent
		(\$)	(\$)	(\$)	(\$)	(%)
1	Residential Service (21-RS)					
2	General Use	17,434,039	(173,846)	(434,684)	(608,529)	-3.5%
3	Space Heating	802,699	(8,421)	(21,055)	(29,476)	-3.7%
4	General Service Small (21-GSS)	2,191,219	(25,325)	(63,323)	(88,649)	-4.0%
5	General Service Large (21-GSL)	17,615,271	(168,235)	(420,655)	(588,890)	-3.3%
6	General Service Space Heating	256,111	(1,867)	(4,668)	(6,535)	-2.6%
7	Industrial Service (21-IS)	5,710,635	(48,737)	(121,863)	(170,601)	-3.0%
8	Industrial Service-Primary Discount	0	0	0	-	N.A.
9	Real -Time Pricing (13-RTP)	7,413	0	0	-	N.A.
10	Transmission Level Service (21-STR)	25,210,773	(4,253)	(49,025)	(53,278)	-0.2%
11	Municipal Power Service (21-M-I)	39,443	(478)	(1,195)	(1,672)	-4.2%
12	Water Pumping Service (21-WP)	784,063	(7,910)	(19,778)	(27,687)	-3.5%
13	Irrigation Service (21-IP-I)	367,420	(3,680)	(9,201)	(12,881)	-3.5%
14	Temporary Service (21-CS)	723,301	(11,156)	(27,894)	(39,050)	-5.4%
15	Lighting	444,228	(7,209)	(18,026)	(25,235)	-5.7%
16	Total Retail Rates	71,586,615	(461,117)	(1,191,366)	(1,652,483)	-2.3%

Q. What is your final recommendation to the Commission?

A. My recommendation is to approve Southern Pioneer's Application in this docket which is just and reasonable and in the public interest.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that a true and correct copy of the foregoing pleading was electronically served this 2nd day of May, 2022 to:

JOSEPH R. ASTRAB, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
j.astrab@curb.kansas.gov

TODD E. LOVE, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
t.love@curb.kansas.gov

DAVID W. NICKEL, CONSUMER COUNSEL
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
D.NICKEL@CURB.KANSAS.GOV

SHONDA RABB
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
s.rabb@curb.kansas.gov

DELLA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
d.smith@curb.kansas.gov

TERRY M. JARRETT, Attorney at Law
HEALY LAW OFFICES, LLC
3010 E BATTLEFIELD
SUITE A
SPRINGFIELD, MO 65804
terry@healylawoffices.com

HEATHER H STARNES, ATTORNEY
HEALY LAW OFFICES, LLC
12 Perdido Circle
Little Rock, AR 72211
heather@healylawoffices.com

DAVID COHEN, ASSISTANT GENERAL COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
d.cohen@kcc.ks.gov

CARLY MASENTHIN, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
c.masenthin@kcc.ks.gov

SUSAN B. CUNNINGHAM, SVP, Regulatory and Government Affairs, General Counsel
KANSAS ELECTRIC POWER CO-OP, INC.
600 SW CORPORATE VIEW
PO BOX 4877
TOPEKA, KS 66604-0877
scunningham@kepco.org

MARK DOLJAC, DIR RATES AND REGULATION
KANSAS ELECTRIC POWER CO-OP, INC.
600 SW CORPORATE VIEW
PO BOX 4877
TOPEKA, KS 66604-0877
mdoljac@kepco.org

REBECCA FOWLER, MANAGER, REGULATORY AFFAIRS
KANSAS ELECTRIC POWER CO-OP, INC.
600 SW CORPORATE VIEW
PO BOX 4877
TOPEKA, KS 66604-0877
rfowler@kepco.org

PAUL MAHLBERG, GENERAL MANAGER
KANSAS MUNICIPAL ENERGY AGENCY
6300 W 95TH ST
OVERLAND PARK, KS 66212-1431
MAHLBERG@KMEA.COM

MARK CHESNEY, CEO & GENERAL MANAGER
KANSAS POWER POOL
100 N BROADWAY STE L110
WICHITA, KS 67202
mchesney@kansaspowerpool.org

JAMES GING, DIRECTOR ENGINEERING SERVICES
KANSAS POWER POOL
100 N BROADWAY STE L110
WICHITA, KS 67202

jging@kansaspowerpool.org

LARRY HOLLOWAY, ASST GEN MGR OPERATIONS
KANSAS POWER POOL
100 N BROADWAY STE L110
WICHITA, KS 67202
lholloway@kansaspowerpool.org

GLENDA CAFER, ATTORNEY
MORRIS LAING EVANS BROCK & KENNEDY
800 SW JACKSON
SUITE 1310
TOPEKA, KS 66612-1216
GCAFER@MORRISLAING.COM

RANDY MAGNISON, EXECUTIVE VICE PRESIDENT - ASSISTANT CEO
PIONEER ELECTRIC COOP. ASSN., INC.
1850 W OKLAHOMA
PO BOX 368
ULYSSES, KS 67880-0368
rmagnison@pioneerelectric.coop

ELENA LARSON, MANAGER, RATES AND REGULATORY SERVICES
POWER SYSTEM ENGINEERING, INC.
3321 SW 6TH AVE
TOPEKA, KS 66606
larsone@powersystem.org

LINDSAY CAMPBELL, EXECUTIVE VP ASSISTANT CEO/GENERAL COUNSEL
SOUTHERN PIONEER ELECTRIC COMPANY
1850 W OKLAHOMA
PO BOX 430
ULYSSES, KS 67880-0368
lcampbell@pioneerelectric.coop

STEPHEN J. EPPERSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER
SOUTHERN PIONEER ELECTRIC COMPANY
1850 W OKLAHOMA
PO BOX 430
ULYSSES, KS 67880-0368
sepperson@pioneerelectric.coop

RICHARD J MACKE, VP & LEAD ECONOMICS, RATES, AND BUSINESS PLANNING
POWER SYSTEM ENGINEERING, INC.
10710 Town Square Dr NE Ste 201
Minneapolis, MN 55449
macker@powersystem.org

CHANTRY SCOTT, CFO, EXECUTIVE VP OF FINANCE AND ACCOUNTING
SOUTHERN PIONEER ELECTRIC COMPANY
1850 WEST OKLAHOMA
PO BOX 403
ULYSSES, KS 67880
CSCOTT@PIONEERELECTRIC.COOP

TIMOTHY E. MCKEE, ATTORNEY
TRIPLETT, WOOLF & GARRETSON, LLC
2959 N ROCK RD STE 300
WICHITA, KS 67226
TEMCKEE@TWGFIRM.COM

J.T. KLAUS, ATTORNEY
TRIPLETT, WOOLF & GARRETSON, LLC
2959 N ROCK RD STE 300
WICHITA, KS 67226
jtklaus@twgfirm.com

KACEY S MAYES, ATTORNEY
TRIPLETT, WOOLF & GARRETSON, LLC
2959 N ROCK RD STE 300
WICHITA, KS 67226
ksmayes@twgfirm.com

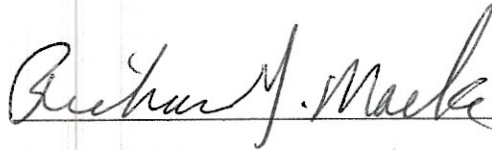
JAMES P. ZAKOURA, ATTORNEY
SMITHYMAN & ZAKOURA, CHTD.
7400 W. 110th St.
OVERLAND PARK, KS 66210-2362
jim@smizak-law.com

/s/ Lindsay A. Campbell
Lindsay A. Campbell

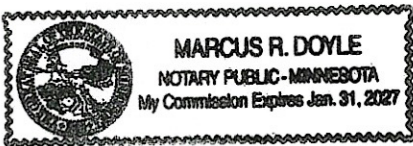
VERIFICATION

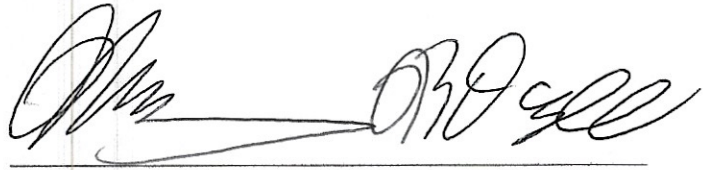
STATE OF MINNESOTA)
) ss:
COUNTY OF WASHINGTON)

The undersigned, Richard J. Macke, upon oath first duly sworn, states that he is the Richard J. Macke referred to in the forgoing document titled "Prefiled Direct Testimony of Richard J. Macke" before the State Corporation Commission of the State of Kansas, that he is an employee of Power System Engineering, Inc., that the contents therein were prepared by him or under his direction, and are true and correct to the best of his information, knowledge, and belief.


Richard J. Macke

Subscribed and sworn to before me this 2nd day of May, 2022.




Notary Public

My appointment expires: 01/31/2027